



Real estate market overview 2007/2008



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Real estate market overview 2007/2008

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Dear clients and partners,



The experts of Arco Real Estate property advisory team are pleased to provide you with an overview of the property market in all of our six domestic markets. The overview is compiled of different market sectors and gives a brief view of the current situation within the residential, commercial and land market of all six countries.

With over 15 years of experience, synergy gained from Arco Vara group's three divisions—services, development and construction – as well as our wide geographical scale, has enabled us to gather comprehensive information from various sources on the market. The overview explores in general terms the current situation of the real estate market, if you have any further interest and wish for a more detailed and in-depth analysis, please do not hesitate to let us know. Our team of property advisors is ready to provide you with information in the fields of market

research, due diligence, highest and best use analysis, property concept development, investment feasibility and property valuation.

Arco Vara group has a network of international property brokerage, as well as a team of highly professional experts in their field, to provide you with a full range of real estate services.

Thank you for choosing Arco Real Estate as your partner!

Tõnu Luts

Head of Property Advisory team

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About Arco Vara group

6 Arco Vara group is a property developer and real estate agent in the Baltic countries, undergoing a CEE expansion, with a presence established in Bulgaria, Romania and Ukraine. The operations include real estate development, agency and advisory services, asset management, property management and civil and environmental construction. The group performs under the trademark of "Arco Vara" in Estonia and "Arco Real Estate" in its other locations.

The company was established in 1992 as a real estate agency in Tallinn. In 1995 the first sizeable development project, Veskimõldre (72 hectares), was started in Tallinn; the following year saw the group's expansion into Latvia. Today the Arco Vara group covers six countries, with 30 offices, in Estonia, Latvia, Lithuania, Bulgaria, Romania and Ukraine. The group employs over 600 people.

The activities of the Arco Vara group can broadly be divided into three business areas: services, development and construction. The service division is engaged primarily in real estate brokerage and appraisal, real estate management, property advisory services and asset management. The development division is mainly focused on development of monolithic residential and business environments. The group's construction division is providing services for general contracting, construction supervision and environmental construction.

The consolidated turnover of Arco Vara AS in 9 months of 2007 was 43.9 mln EUR and net profit 16.9 mln EUR.

Arco Vara AS is listed on the Tallinn Stock Exchange. www.arcorealestate.com



ARCO GLOBE

Arco Vara group's international brokerage network
www.arcoglobe.com



General information on countries

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	Estonia	Latvia	Lithuania
Population in 2006 (m)	1.3	2.3	3.4
Area (thousand km²)	45	65	65
Capital City	Tallinn	Riga	Vilnius
Population in Capital Cities in 2006 (thousand)	396	726	554
Population in Capital Cities (%)	30%	32%	16%
Largest Cities in 2006 (no. of inhabitants–thousand)	Tartu: 102 Narva: 67 Kohtla-Järve 46 Pärnu: 44	Daugavpils: 109 Liepaja: 86 Jelgava: 66	Kaunas: 361 Klaipeda: 187 Siauliai: 129
GDP (m. EUR)	13 234 (2006)	16 180 (2006)	23 721 (2006)
GDP growth (%)	6.4% (Q3 2007)	11.0 (Q2 2007)	10.8% (Q3 2007)
Inflation rate (%)	6.4% (Q3 2007)	10.3% (Q3 2007)	5.9% (Q3 2007)
Unemployment rate (%)	4.2% (Q3 2007)	5.9% (Q3 2007)	2.8% (Q3 2007)
Gross Salaries (EUR per month)	697 (Q3 2007)	575 (Q3 2007)	565 (Q3 2007)
Personal income tax	21% in 2008	25% 15% (business income)	24% (employment income) 15% (capital income)
Corporate income tax	21/79 for net distributed profit	15%	15% 13% (small enterprises)
VAT (general rate)	18%	18%	18%
Land tax	0.1–2.5%	1%	1.5%
Property tax or building tax	0%	1%	0.3–1.0%
Currency, exchange rate	EEK (1 EUR = 15.6466 EEK)	LVL (1 EUR = 0.7028 LVL)	LTL (1 EUR = 3.4528 LTL)

	Ukraine	Bulgaria	Romania
Population in 2006 (m)	46.8	7.7	21.6
Area (thousand km²)	604	111	238
Capital City	Kiev	Sofia	Bucharest
Population in Capital Cities in 2006 (thousand)	2 662	1 232	1 928
Population in Capital Cities (%)	5.7%	16%	8.9%
Largest Cities in 2006 (no. of inhabitants–thousand)	Kharkiv: 1470 Dnipropetrovsk: 1065 Odessa: 1029	Plovdiv: 708 Varna: 458 Burgas: 419	Iasi: 317 Timisoara: 307 Constanta: 307
GDP (m. EUR)	~ 70 000 (2005)	25 100 (2006)	97 718 (2006)
GDP growth (%)	8.6% (Q2 2007)	6.6% (Q2 2007)	5.9% (Q3 2007)
Inflation rate (%)	14.1% (Q3 2007)	4.7% (Q2 2007)	3.8 (Q2 2007)
Unemployment rate (%)	2.1% (Q3 2007)	7.9% (Q2 2007)	3.9% (Q3 2007)
Gross Salaries (EUR per month)	190 (Q3 2007)	208 (Q2 2007)	389 (Q3 2007)
Personal income tax	15%	10%	16%
Corporate income tax	25%	10%	16%
VAT (general rate)	20%	20%	19%
Land tax	1%	0.15–0.30%	Decided by local council
Property tax or building tax	0%	0.15–0.30%	0.1–0.2% (individuals) 0.25–1.5% (companies)
Currency, exchange rate	UAH (1 EUR = 7.428 UAH) (end of 2007)	BGL (1 EUR = 0.511 BGL) (end of 2007)	RON (1 EUR = 3.603 RON) (end of 2007)

ESTONIA

Gains from the sale of real estate realised by **non-residents**, are in 2008 subject to **income tax** at 21%. The tax rate will be reduced to 20% in 2009; to 19% in 2010 and finally to 18% as of 2011.

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18% **VAT** applies to the sale of land for construction and new buildings. A taxable person may opt to apply VAT on the sale of an old building, unless it is a dwelling.

Annual **land tax** ranges from 0.1% to 2.5% of the taxable value of the land, which is determined in periodic assessments (excluding the value of property and buildings). The tax rates are decided on annually by the local municipalities.

State duties and notary fees upon registration of changes in the ownership rights or upon registration of a mortgage may also apply.

LATVIA

For **non-resident companies**, a 2% **withholding tax** on the sales price of real estate or shares in a real estate company applies unless there is a permanent establishment in Latvia (taxed as resident company).

For **non-resident individuals**, a 25% **income tax** on capital gains or 2% **withholding tax** from the sales price applies.

18% **VAT** is applicable on the first sale of unused real estate. There is no VAT on the sale of used real estate. No VAT on land if the price for land is separated from the apartment's price. Sale of land is exempt. However, land for development is expected to be subject to VAT as of 2009.

1% **real estate tax** of the cadastral value of land and buildings applies as of January 2008. Due to an increase in the tax base the increase in tax due for

the years 2008, 2009 and 2010 is capped at 25% from the tax paid in the previous tax year. Residential buildings and apartments are exempt (the tax, however, is payable for the legal share of land pertaining to the apartment).

State duties and notary fees upon registration of changes in the ownership rights or upon registration of a mortgage may also apply.

LITHUANIA

The sale of real estate owned by **non-resident companies** is subject to **corporate income tax** at the rate of 15% on capital gains.

The sale of private real estate owned by **non-resident individuals** is subject to **personal income tax** at the rate of 15% on capital gains. However, capital gains are non-taxable if the property was acquired more than 3 years prior to its sale or was transferred into other ownership.

As a general rule, the sale of land for construction and new buildings is subject to **VAT** at the standard rate of 18%. Buildings older than 24 months are exempt from VAT with an option to tax.

Lithuanian and foreign companies are subject to an annual **real estate tax** within the range of 0.3% to 1% of the taxable value of the immovable property (except land which is subject to land tax), depending on the municipality.

Land tax applies on land at the annual rate of 1.5% of the taxable value of the land. Exemptions may apply to certain real estate, e.g. real estate located in free economic zones.

State duties and notary fees upon registration of changes in the ownership rights or upon registration of a mortgage may also apply.

UKRAINE

Non-resident companies must register a permanent establishment in Ukraine and are taxed at 25% on capital gains received from the sale of the real estate.

Rates of 1% and 5% are applied to transactions of real estate, being levied on the income of a non-resident individual from the sale of the real estate.

The **VAT** tax rate is 20%, charged on and over the contractual price of the real estate. VAT is not chargeable on the sale of residential real estate to individuals, except for the first sale. VAT is not levied on the sale of land. However, the whole transaction will be taxable in the case of the land being sold simultaneously with the building/construction located on the respective land plot.

Land owners are subject to **land tax**. If there is a value estimate attached to the land, then the land tax is calculated as 1% of that estimate. Otherwise, the amount of land tax ranges from UAH 0.015–0.21m². For regional centres, zone coefficients from 1.2–3 are applied.

A **pension fund contribution** of 1% of the contractual price is paid by the buyer. This applies only to the sale of buildings and is not applicable to transactions with land.

State duties and notary fees upon registration of changes in the ownership rights or upon registration of a mortgage may also apply.

BULGARIA

The sale of the real estate owned by a non-resident is subject to **income tax** at the rate of 10% on capital gains.

The sale of land (that does not apply to regulated land plots), old buildings and old buildings with adjoining land are VAT exempt. The law provides for an option to tax for such transactions and the seller is entitled to elect to treat the respective transaction as VAT taxable.

New buildings and new buildings with adjoining land are subject to VAT at the standard rate of 20%. The same applies for transfer of land that qualifies as a

regulated land plot, even if no building is constructed on it.

Companies are liable for **real estate tax** on an annual basis for all real estate owned. The rate of real estate tax is between 0.15% – 0.30% (the exact rate is determined by each municipality) and is levied on the gross book value of the immovable property as per the statutory accounting records of the company. Agricultural land and forests are not subject to such tax.

Transfer of real estate and rights are subject to a **transfer tax** between 2% – 4% (the exact rate is determined by each municipality), levied on the higher amount between the price agreed between the parties and the tax valuation of the property.

Companies are liable for **waste management charges** determined annually by each municipality (if the real estate is within urban areas).

State duties and notary fees upon registration of changes in the ownership rights or upon registration of a mortgage may also apply.

ROMANIA

Tax on real estate (land or buildings) is paid by the individual or legal entity that owns the property.

The tax on **land** is calculated by taking into consideration the number of square meters of the land, the administrative ranking of the town or village where the land is located and the area and/or category of land usage, in accordance with the decision of the local council.

In the case of **buildings**, individuals pay 0.1%–0.2% of the taxable value of the building. Legal entities pay 0.25% to 1.5% of the book value of the building.

State duties and notary fees upon registration of changes in the ownership rights or upon registration of a mortgage may also apply.

Residential premises

Apartment prices in m² in different districts of capitals, EUR/m²

	Tallinn	Riga	Vilnius	Kiev	Sofia	Bucharest
Old town	3 200–4 500	3 500–5 500	3 180–5 200	3 560–10 400	n/a	3 000–4 000
City centre:						
New	2 600–3 200	2 800–3 800	2 600–4 780	2 500–15 000	1 000–3 000	2 700–4 000
Secondary market	2 000–2 600	2 300–3 600	2 350–4 200	1 800–5 000	1 000–3 000	2 000–2 200
Suburban areas:						
New	1 600–2 000	1 400–2 300	1 450–2 300	800–2 600	900–2 600	1 200–2 800
Secondary market	1 300–1 600	1 320–1 620	1 200–2 100	1 270–2 830	800–1 800	1 200–1 400

Source: Arco Real Estate

ESTONIA

The year 2007 will be remembered on the residential premises market by higher interest rates on housing loans; longer sales periods for apartments, private residences and residential land; lower numbers of transactions; and sales prices on some sites that have undergone a negative price adjustment. The cooling down of the residential real estate sector was particularly noticeable in the second half of 2007; for example, in the third quarter of 2007, 24% fewer real estate transactions were concluded in Estonia when compared to the same period in 2006. The slowing down of the real estate market has been more remarkable in Tallinn and Harju County, where the figure was 30%.

However, the drop in market activity has not brought about a significant and overall price decrease. There has been only a 3% downward change in the value of an average real estate transaction in Harju County,

including the capital of Estonia, in the first three quarters of 2007. This situation is new, considering that in the two previous years (2005, 2006), the value of an average real estate transaction increased by 30 and 44%, respectively. The average price of apartments in the secondary market of Tallinn suburbs, at the end of 2007, remains between 1 300–1 600 EUR/m²; a significant change in the nominal price in this sector compared with the previous year, cannot be noted.

Due to a lower demand, the volume of new developments in the construction of apartments and private residences has slowed down. Developers have not launched many new projects and a wide selection of residential real estate and land is on offer. It is not unusual for projects to lower their sales prices to improve their sales volume.

Diminishing purchase and sale transactions have improved prospects in the rental market for residential real estate, which in turn has brought about certain increases in rental prices.

Estonia / Tallinn / Kolde



Estonia / Tallinn / Pirita tee 28A



LATVIA

Apartment prices have experienced a relatively rapid rise until April 2007, then prices started to fall. Standard apartment prices have been most affected, with prices falling by 2–3% every month. (By 1 December 2007 prices had dropped to the levels of early 2007.) The fall in prices slowed down in the closing months of 2007 by 1.6–2% following the summer's average drop in prices of 3%.

The main reason for the decrease in apartment prices has been the Government's anti-inflation measures. The Government and banks have limited the availability of credit; buyers must now make a first payment of 10% on the loan; Land Registry and mortgage registration fees have increased (which has reduced the number of speculative transactions); and interest rates have risen. Subjective factors also come into play: potential buyers are waiting for the real estate market to stabilise and they want to see if there will be an even greater decrease in property prices. The resulting significant reduction in all transactions with apartments can be measured by the comparison of the second quarter and third quarter transaction figures which decreased by 63% whilst property for sale increased by 2%–3%.

As a result of difficulties in selling apartments and also because of an increased demand for rent from apartments, salespeople increasingly offer apartments to rent with redemption rights.

The new project market recognised two price categories in November: the price level at which apartments were sold by developers and the price level for which apartments were sold by speculators (the latter being lower by 15–30%). It was observed that some advertisements offered new projects for the same or an even lower price than the average price of old, non-renovated blocks of flats (the average price 1 December was 1433 EUR/m²).

Developers of new projects continue to offer incentives to stimulate buyers into purchasing new apart-

ments. These gifts of parking places, kitchen units, holidays and new cars, can amount to thousands of euros.

More apartments with full finish have come onto the market in 2007. Buyers demand better quality and have an income to match their aspirations. Buying an apartment fully finished dispenses with the need to take out a second loan to undertake renovation.

Prices of the old, non-renovated blocks of flats, in Riga's suburbs in comparison with the average prices of new projects without finish, are about 30–35% lower, and this difference has increased, compared to July when the price difference in this category was 20–30%. The increase of this difference is due to the decrease of the prices of the old blocks. Prices of the renovated blocks of flats in Riga's older housing estates are about 15–20% lower comparing to the average price of new projects without finish.

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LITHUANIA

Vilnius

In 2007 the real estate market experienced many changes. Before 2007 there were very favourable conditions in which to invest in real estate; huge profits could be made. Developers were competing for the best plots in the city and projects had already been sold before they could be advertised. It was a buoyant market indeed.

The year of 2007 has been a year of transition; real estate prices haven't risen so fast. Buyers became more cautious about investment in real estate. The situation has not been helped by the decision of the European Central Bank to change their policy on giving loans. Banks followed by increasing interest rates and adopting more complicated procedures for giving loans.



Apartments (2007) EUR/m²

Area	Vilnius		Kaunas		Klaipeda	
	New apartments (without finishing)	Secondary market apartments	New apartments (without finishing)	Secondary market apartments	New apartments (without finishing)	Secondary market apartments
Old town	3 180–5 200	2 450–4 500	2 290–2 890	1 590–2 030	2 800–5 200	2 300–4 300
City centre	2 600–4 780	2 350–4 200	1 740–2 030	1 300–1 530	2 300–4 600	2 300–4 600
Suburban area	1 450–2 100	1 200–2 100	1 300–1 450	950–1 450	1 530–2 090	1 360–1 880

Source: Arco Real Estate Lithuania

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The US real estate crisis caused a certain amount of consternation for the Lithuanian mass media who speculated about a similar outcome in Lithuania. Prospects for the real estate market in Vilnius were directly affected. High inflation and a financial forecast of a budget deficit are just the sort of economic indicators predicted to slow down the Lithuanian economy.

Kaunas

In the first half of 2007 prices for both old and new construction projects have been growing from 11–15%. In the third quarter of the year prices of apartments have stabilised. In some housing areas the prices for old apartment blocks have fallen. During 2007 prices of accommodation have grown by approximately 25–30%. Kaunas has followed the trend in Vilnius of older apartment blocks with a good finish attracting buyers at a similar sales price as the new apartment blocks with part-finished interiors. It has been observed that speculative transactions have decreased.

Klaipeda

The sale of apartments in Klaipeda is similar to that experienced in Vilnius; the most expensive apartments cost over 860 000 Euro and the price for one square metre is over 5 200 Euro. The supply of

apartments in new projects was higher than demand. There is a particular high demand for smaller economy-class quadrate apartments. Customers are very interested in fully-decorated apartments, but there are few companies to meet these needs.

There is a possibility that growing interest rates and high inflation may cause some buyers who have not evaluated their incomes, to default on loan payments; in this way availability of new apartments in new projects may grow.

In the prestigious areas of the city prices of apartments remain the same.

UKRAINE

The residential real estate market in Kiev hasn't shown the same large rise in prices this year that was observed during 2004–2006. The price rise for flats averaged approximately 20–25%. Taking into account the rapid growth in previous periods of 40–60%, we can expect price stabilisation in that market sector in the future.

During the period of 2004–2006 market demand for residential real estate was two or even three times higher than that of supply. The situation changed in 2007 when the level of supply increased two times. Those changes came at the same time as the political confrontations in the country and high inflation levels



that caused a decrease in demand for property. Implemented taxation for immovable property under sale, for natural persons, had been “frozen” in the residential market sector for first two months of the year. Sellers and buyers adopted a waiting position. Investors and speculators went to other market sectors, which became more attractive for them.

The year 2007 is also characterised by the banks’ decreasing activity in the mortgage lending sector. High levels of inflation, the ever increasing gap between incomes and the rising cost of living has led to a large sector of the population being unable to finance home improvements and renovation. Banks have been reluctant to offer better interest rates, instead they proposed lower initial loan installments and longer terms of credit. Generally interest rates have been holding at the level of the previous year. Credit in the Hryvna currency has decreased, but customers prefer loans in foreign currencies so the situation wasn’t unduly influenced.

The present tendency for rising prices of residential real estate, in Kiev is not constant for all locations across the city. The Pechersky, Shewchenkovsky and Podolsky districts have experienced the most price rises; they enjoy a close location to the city centre, and there is a distinct shortage of building land for similar schemes in the area.

Price changes fluctuated depending on their real estate category. Blocks of flats of the Hrushevskyy and Gostinichnyy type, located away from the city centre, have undergone no change, whereas similar blocks on the outskirts of the city have decreased by 6–7% in comparison to last year’s price. Prices for flats on housing estates built 20–30 years ago have risen by 5–15%. The steepest rises in residential real estate have been for flats in the city centre or in new and renovated houses—these have risen by 30–50%; this tendency is expected to continue in 2008. Despite these trends, the price level per square metre in the Hrushewskyy or Chech project blocks is higher than the price per square metre in new blocks. due to the different layout of the flats. The expecta-

tion is for the price per m² to improve depending on the quality of the flat.

Therefore we can expect an absence of price rises for flats in blocks, that were built in the 60s and anticipate instead a decrease by approximately 6% per year.

There is an expectation of increasing demand at the luxury end of the residential real estate market: elite, business and business plus. A shortage of appropriate land and increased demand has encouraged a most positive forecast with price levels rising to approximately 15–20% (not less than the level of inflation).

The new housing areas of Capitoly and Triumph are not predicted to influence the luxury housing market in Kiev. This category in the residential real estate market is expected to be very attractive in 2008, with the ability to generate minimum profits of 15–20%.

In the economy housing category: economy and economy plus, there is a different standard and specification; buyers are looking for comfort at a reasonable price. Such housing is built to quality modern standards and is situated in a good area. Buyers tend to be those who are looking for better housing conditions. Increasing market saturation is predicted to return a healthy profit; prices should increase by approximately 10–12%, per year.

The primary real estate market in Kiev had experienced price rises of almost 40% by August 2006 in comparison to August 2007, which only experienced a 12% rise from January of that year. In September and October there was a revival of sorts, but this was offset by the constant increase of market supply.



BULGARIA

Interest in residential real estate, in the city of Sofia and in the regional administrative centres is consistently high. Migration to the capital, and the large regional towns, typical for the development of the post-socialist states, creates a constant inflow of local people, that are trying to settle there, and to acquire permanent housing. Expectations are for these trends to continue, for at least a further five years.

16 Sofia, the capital city, is also an attractive destination for foreign investors. In Sofia there are various opportunities on offer for the purchase of luxury real estate at comparatively low prices in contrast to those of other European capitals. There is a demand for luxurious apartments and houses that are to be used for permanent homes, second homes or with investment aims.

The greatest number of residential real estate transactions took place in the city of Sofia and the towns of Varna, Bourgas, Nesebar and Rouse.

According to the National Statistical institute, housing

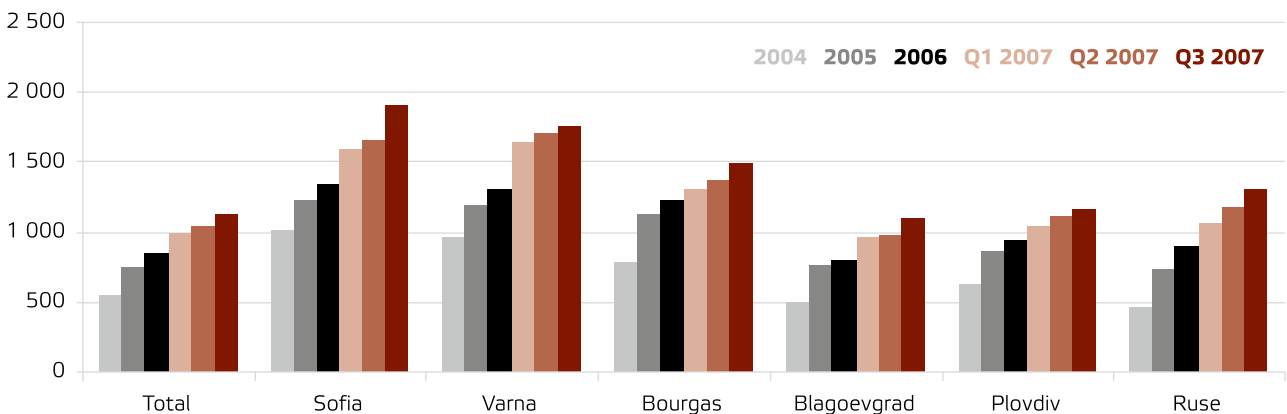
prices for the first three quarters of 2007 have grown by 23.76% in comparison to the end of 2006. The greatest increases have been noted in the following cities: Sofia (37.05%); Rouse (34.20%); and Blagoevgrad (30.98%).

The increased demand for fully-fitted properties, and the limited supply of such type of housing is the main reason for the increase of prices of the living accommodation in the capital, and the regional resort centres Varna and Bourgas, where the increase is of with 23.58% and 14.32% respectively.

Despite the increased interest in holiday homes in the seaside resorts, supply exceeds demand slowing the pace of price increase. The market is becoming divided according to quality, location and type of build; there is a wide choice for the prospective buyer. Analysts report an increase of 20% in coastal properties and about 10% in the mountain complexes, for 2007.

Prices of new constructions are usually lower, taking into account the fact that offers for the sale of apartments which are not finished, are about 10–15% lower than those which are finished. Usually prices

Average prices of residential estates, in regional towns, in the period 2004–2007 3Q, EUR/m²



Source: National Statistical Institute



Lithuania / Klaipeda / Ošupio oasis



Bulgaria / Sofia / Madrid

increase with the acceleration of construction. The shortage of luxury housing in the city of Sofia and Varna is so immense that in some districts even housing that is sold in the initial stage of construction is experiencing dramatic price increases. Another reason for the price rise are the growing prices of the land parcels, suitable for construction, the price raise of the working force, the construction materials and fuels.

For the city of Sofia, greatest demand is for finished housing or the ones that are in the pre-finish stage. High interest is also registered in older housing in the prestigious district of Sofia that are offered with renovation and modern furnishing. Prices of renovated and luxuriously furnished old apartments in the city centre are close to the ones of the luxurious apartments in the new modern housing buildings or compounds. In the areas, with more intensive new construction: Manastirski livadi, Vitosha, Buckston and Mladost the main part of the supply is in the range of 1 000–1 200 EUR/m². In the housing complex of Ljulin, where there is an opportunity for new construction and supply is even greater, prices vary between 750–900 EUR/m².

Small complexes of one and two-roomed apartments are most in demand and command the highest prices. During the last nine months, the city of Sofia

Average offer prices in the selected districts in Sofia, Plovdiv, Varna and Bourgas, 1 December 2007, EUR/m²

	Prefabricated building	Brick building	Under construction	Average for the district
Sofia				
Center	1 698	1 610	1 264	1 384
Lozenetz	1 072	1 544	1 646	1 351
Ivan Vazov	1 393	1 557	1 607	1 388
Mnastriski livadi	1 140	998	927	906
Iztok	1 185	1 609	1 646	1 311
Strelbishte	962	1 337	1 352	1 152
Lylin	892	782	735	781
Mladost	966	978	900	896
Borovo	991	1 156	1 000	992
Plovdiv				
Center	723	829	835	726
Karshiaka	661	709	682	645
Trakiya	644	609	548	577
Varna				
Center	1 061	1 090	975	1 006
Gratska Mahla	n/a	1 728	1 921	1 597
Chayka	1 014	1 111	977	983
Cherven ploshtad	999	1 361	1 223	n/a
Levski, Tsveten	964	931	878	831
Mladost	1 188	890	853	802
Bourgaz				
Center, Lazour	965	1 000	906	911
Izgrev	728	700	636	632
Slaveykov	766	1 041	635	656
Medn Rudnik	537	435	416	398

Source: imot.bg/imoti.net

has experienced an increased demand for larger three-room housing as their prices per square metre move into alignment with one and two-roomed apartments.

Bulgaria / Sofia / Manistirski



Romania / Bucharest / Unirii Residence



Average prices for holiday housing estates in selected ski resorts, 1 December 2007, EUR/m²

	Average price	Price range
Bansko	1 125	581–1 772
Razlog	1 173	500–1 363
Borovets	1 214	945–2 444

Source: imot.bg

ROMANIA

18 2006 was characterised by the appearance of large residential projects (with over 100 apartments), aimed at middle-income buyers, whereas 2007 was characterised by the extension of construction areas in south and west Bucharest.

Developers of these new blocks asked for higher prices, but were prepared to offer larger apartments with various fixtures and fittings; including the additional incentives of: security, commercial spaces, sports areas and kindergartens all within the compound. Such projects proved to have a real competitive edge against the secondary market.

There is a definite division in Bucharest’s real estate market: the north and central districts of the city appeal to the luxury market, or higher-income sector, whilst the other developed areas in the south, east and west of the city, cater for the middle-income bracket.

The projects directed at the middle-income sector have been built in areas of high population density, with easy access to public transport and retail facilities. These include: Militari in the west, Drumul Taberei in the south-west and Vitan and Colentina in the east.

Developers also began to be more flexible regarding payment conditions by offering multiple payment rates. The common payment method among the buyers

was 25% in advance, at the pre contract signing, and 75% upon apartment delivery.

Last year marked a decrease in demand in the luxury market and a reorientation towards new apartments. The selling price, targeting middle-income buyers, varies between 850–1 400 EUR/m² + VAT. The development sector has followed a rising trend in recent years, 50,000 construction permits have been released for residential building in 2006. Investments in the construction sector have increased by 8.4% in 2007.

The north of Bucharest remained one of the top locations for real estate development. Clients were attracted first by the location of the compounds and second by the price and range of facilities offered.

In the luxury market prices varied between 1 450–2 500 EUR/m² + VAT or even by 3 500 EUR/m² + VAT for the most exclusive areas in the north and centre of Bucharest.

The year of 2007, has seen an extension of residential areas on the outskirts of Bucharest. Initially they were intended for the construction of houses, more recently, developers have opted for a residential mix. All the facilities that a town can offer are provided in the compound area: kindergartens, schools, medical centres, and public transport into the city.

Another large residential development was announced in 2007: in Constanta and Mamaia, on the Black Sea coast, where over 40 residential compounds are to be built.



Romania / Cluj / Borchanci



Romania / Cluj / Europa

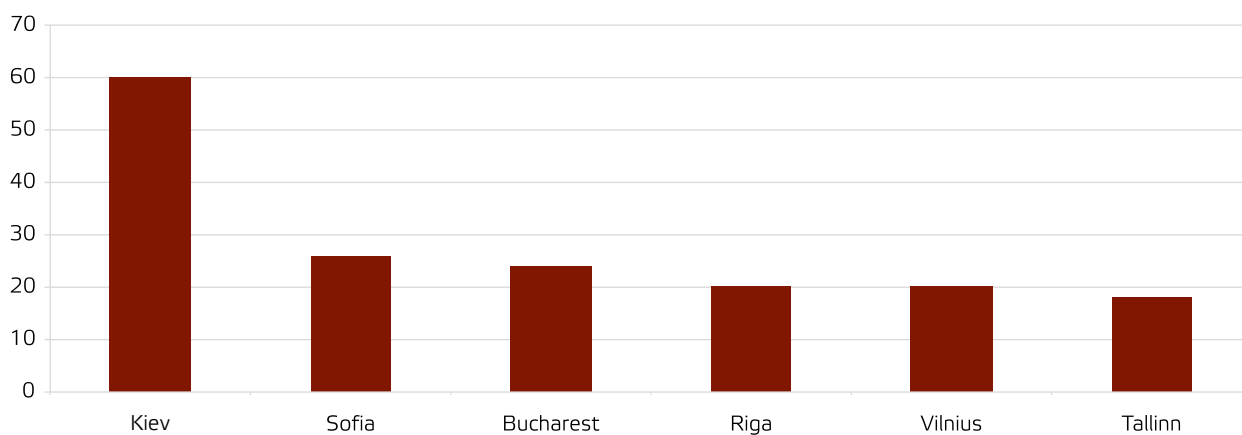
Office premises

Key figures of office premises

Average rental prices	Tallinn	Riga	Vilnius	Kiev	Sofia	Bucharest
Class A, EUR/m²/month	11.5-18	17-20	17-20	45-60	12-26	18-24
Class B, EUR/m²/month	9-11.5	9-14	12-16	38-45	7-11	14-16
Average vacancy (Class A office)	0%	10-20%	2%	2%	6-8%	0%
Prime yield (Class A office)	6-8%	6-8%	6-8%	9.5-11%	7-8.5%	6.8-7%

Source: Arco Real Estate

Highest rental prices for office premises in various capitals, EUR/m²/month



Source: Arco Real Estate

Estonia / Tallinn / Tammsaare Ärimaja



Estonia / Tallinn / Laeva



ESTONIA

Due to the relatively fast development of the economy, existing companies are expanding and new companies that need office premises are appearing. Increased demand has initiated the construction of new office buildings, which is reflected in the increase in the volume of building permits issued. A remarkably big leap took place in 2007, with building permits issued for the construction of approximately 195 000 m² of new office space in Tallinn and Harju County in the first three quarters. In comparison, in 2006, building permits were issued for the construction of approximately 140 000 m² of office space.

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Tallinn and Harju County are undergoing a significant and lengthy expansion in the planning and construction of office premises creating plenty of business opportunities in this sector of the market. If all these plans are realised, the area of modern office space might double in Tallinn in the years to come. Thus, it can be stated that development activities have moved from the establishment of residential premises to the construction of commercial buildings in Tallinn, to a great extent.

A few years ago the purchase of office premises made up a great proportion of business in this sector. Today, (in a situation where purchase prices have risen to rather high levels) the rental market appears more attractive.

In general, since the client presumes that the new projects that are entering the market are of high quality, they agree to pay a decent rent. As such, not only the technical quality of buildings is assessed, but the quality factors based on the location of the building are also of great importance. Due to great demand, the rental prices of office premises in new commercial buildings at the end of 2006 and in 2007 have increased by approximately 10–15%. Within a year, a rather large volume of new office premises have been or will be offered in suburban areas. A tenant already has the opportunity to choose between different projects today and hold negotiations on the low-

ering of rental prices. The significant increase in offers sets clear limits for the further increase of rental prices and may cause some adjustment of price levels according to qualitative factors.

The situation is different with respect to office premises in the city centre area, where there are virtually no vacant premises (projects) at the moment. The current situation with respect to class A office premises in the city centre is characterised by virtually no vacancies and offer prices reaching 20 EUR/m²/month. But it is known that in the coming years, new office premises will be added to the city centre area with the potential for an increase in rental prices. It is difficult to predict the realisation and size of this potential. When comparing the top rental prices of Tallinn with the levels of other eastern European capitals, we can see that there is plenty of room for development.

In the coming years, significant changes in the office premises market can be expected, mainly due to the volume of new premises being added. The significant increase in offers sets clear limits for the further increase of rental prices and may cause some adjustment of price levels according to qualitative factors. The freezing of some planned projects can be expected, considering the cooling down of the local economic climate as well. In the context of vacancy, new projects of a higher standard can be expected to put pressure on older premises and less elaborate concepts. In addition to the status of a new building, parking, as well as the flexibility of the owner towards the wishes of the tenants are gaining more and more importance. The market is becoming more tenant-centred.

LATVIA

The office premises market during 2007 was one of the most active sectors in the real estate market in Latvia, but still not as active in comparison to 2006.



Estonia / Tallinn / Scala City



Latvia / Riga / Duntis Nami

The construction of office buildings has become very popular in the capital city of Latvia, for several reasons: the office premises sector is not fully saturated so competition is less; growing demand is making the sales of such premises less of a risk; high yields are possible in the office premises sector; the time span from the projects' completion to the point of sale can be short. Demand was higher than supply in 2007, creating a market imbalance. Demand is still high for high-class office buildings, whilst class C premises are still available for rent.

It is predicted that demand could be satisfied in 2008 when a number of new office buildings will open, including: Unity Business Centre and SWH business centre.

The table below shows the existing (2007) and planned (2008) office space in Riga in m²:

Total space of modern office premises in Riga Class A and B, m ²	
2007	2008
~ 270 000	~ 140 000
Arco Real Estate Latvia	

In comparison to 2006 the changes in average rental prices per m² for modern office spaces in Riga, have not been very great.

In 2007, demand remained for offices of about 100 m², but larger office premises were more desirable and sought after. Owners of these office premises understandably find it more difficult to manage a large number of tenants who may not all wish to extend their lease agreements; their preference is undoubtedly for premises with larger spaces but with fewer but more reliable tenants.

Difficulties in the residential market have caused some developers to move into the office premises market; such reorientation is relatively cheap. Multifunctional office buildings are entering onto the market; this is possible because many building plots are provided

for mixed construction use. Developers find this particularly attractive as they can target more tenants with different needs, decreasing risk.

LITHUANIA

Vilnius

Modern Class A and B office premises in Vilnius cover about 230 000 m². 2007 was a very busy year in the office premises sector, because a further 40 000 m² of modern office space became available—that is 43% more than in 2006.

The following business centres opened in 2007: Vilniaus vartai, 10 000 m² class A – a most prestigious new addition; Vilvesta, 8 000 m² class A; Anreka, 6 500 m² class B; Skraidenis, 7 000 m² class B and Realtus, 2 700 m² class B. The proposed and vast Vetruna class A business centre has been postponed until the first half of 2008.

It is anticipated that more than 100 000 m² of modern office space will come onto the market in 2008. Today supply is considerably exceeded by demand: a incoming years a slight market change is anticipated. Developers have turned their attention towards the office premises sector away from the less active residential sector, where great profits have been gained in the past. According to market needs the new business centres are located in the suburbs within easy access of the capital's ring roads.

Kaunas

The recent increased interest in modern offices has stimulated the renovation of old construction sites in the city of Kaunas; at the end of 2007 three buildings were undergoing renovation in Savanoriu pr. A new class A project, Business Center 1000 is in the final stages of completion. The opening is planned for 1 March 2008. The total plot of office space is 4 500 m².



Lithuania / Vilnius / Jin



Lithuania / Vilnius / Jan

Total space of modern office Class A and B premises, m² (existing office space)

Area	Vilnius	Kaunas	Klaipeda
	230 000	28 000	55 000

Average rental prices of office premises (2007), EUR/m²/month

	Class A	Class B	Class C
Vilnius	17–20	12–16	6–10
Kaunas	12–16	9–13	5–8
Klaipeda	12–30	10–14	5–8

Average rental prices of office premises (2007), EUR/m²/month

Area	Vilnius	Kaunas	Klaipeda
Down town	12–21	9–26	11–17
Outside downtown	11–15	6.60–8	6–15

Average vacancy and average yield (Class A office)

Area	Vilnius		Kaunas		Klaipeda	
	Vacancy	Yield	Vacancy	Yield	Vacancy	Yield
	2%	6–8%	7%	5–7%	5%	5–8%

Source: Arco Real Estate Lithuania

Rental prices of office premises have risen by about 7%, whilst rental prices in the housing and industrial sectors have raised by about 10%–15%.

Klaipeda

In latter years the supply and demand for office premises has remained balanced. The plan is to construct several modern buildings for offices, throughout the city of Klaipeda. It is interesting to note that

class A office premises in Klaipeda are more expensive than those in Kaunas. There is growing tendency to move offices from the centre of the city to the modern office premises outside the city centre.

The economic base in Klaipeda is formed by small enterprises that are around 60–120 m². Class B office premises are very popular in this market. Office premises in multi-functional projects are also very saleable in Klaipeda.

The main tenants of class A office premises are large companies, such as pharmaceutical companies, financial services companies, technology and telecommunications companies, banks, leasing and insurance companies and embassies.

In terms of commercial real estate, Klaipeda is a small city (population 187 000), where the distance from the other Lithuanian cities and the harbour's activity are powerful determining factors in company development.

Most offices are in older buildings. And the majority of enterprises prefer to own their premises rather than rent them.

During 2008, the Klaipeda office premises market will offer around 40 000 m² of office premises.

Bulgaria / Sofia / East View Center

Romania / Bucharest / Rams Business Park



UKRAINE

Ukraine has a population of 46 million, its capital Kiev is a capital city of 3 million people, which has a very attractive geographic position and a potentially huge demand for office premises.

The Kiev office real estate market is today undergoing a dynamic period of development. Due to an increase of business activities in Kiev the demand for quality office premises considerably exceeds supply. Economic growth, reflected in positive trends for macroeconomic indices and an increase in the volume of foreign direct investments into the Ukrainian economy, has caused an even greater gap between supply and demand. This has resulted in a 17–33% increase in rent, in class A and B business centres respectively, indicating one of the lowest vacancy rates of 1.7%, in Europe.

There are over 100 business centres in Kiev. In 2007 existing business centres covered 640 000 m² of office space.

The supply of high class office premises is increasing. In 2007–2008 it is planned to put into operation around 500 000 m² of new office premises in business centres of class A and B standard. The level of cap rates is falling due to a decrease in investment risks for office properties and the growing professionalism of market participants. Cap rates for professional business centres are the following: class A at 9.5–11% and class B at 10–11 %.

Today most transactions have been concluded in the central business district (CBD). Office density in the central part of Kiev is reaching saturation.

However, an increasing number of tenants have considered the districts adjacent to the CBD. These areas offer a good infrastructure and lower rental rates. As a result, business–park developments are considered to be one of the most promising market sectors.

BULGARIA

The sector of office premises real estate is developing dynamically as the recent membership of Bulgaria to the EU (1 January 2007), has given a new sense of impetus to investors.

The demand for modern office areas is highest in the capital city of Sofia and the towns of Plovdiv and Varna, where the main part of the construction is concentrated.

In 2007, several large–scale projects were completed: Sofia Business Centre, a complex of 30 000 m² of mixed purpose office space and the buildings N8, N6 and N5 of BPS, covering a total of 53 360 m².

There were 150 000 m² of office buildings introduced onto the market from January–September 2007; whilst 160 000 m² of office buildings had been introduced throughout 2006. Source: The Balkan Consultancy Centre (www.bcc.bg).

The office supply in the city of Sofia currently surpasses 660 000 m² according to real estate analysts.

The areas of class A and B offices to the end of the first half of 2007, in Varna, amount to 64 000 m².

The construction of office areas in the city of Sofia has increased by about 164%, in comparison to the end of the last year, surpassing 1 200 000 m². Another 1 180 000 m² are underway. (Source: bcc/index.imoti).

Demand for class A and B office space in the capital continues to surpass the supply. Vacant office space in the business parks is at 6–8%, despite current offers of new office areas. Tenants are staying in the offices as construction goes on around them.

Rents depend on the location and quality of the office premises. In the very centre and alongside the main boulevards and at the entrance and exit routes in and



Key figures of office premises in Sofia and Varna

Office buildings category A & B		Available m ²	Under construction m ²	Price EUR/m ²	Yields
Sofia	Total	636 000	1 200 000		7-8.5%
	Class A			12-26	
	Class B			7-11	
Varna	Total	64 000	116 000	5-20	
	Class A	37 000			
	Class B	27 000			

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In accordance with Source: data bcc/ Arco imoti

out, of the city, office rents are highest. Maximum prices up to December 2007, reached 30 EUR/m². This is the rent for an office in the luxurious business building in Lozenetz. In business parks, rents are almost twice as low, somewhere between 10-15 EUR/m². The average offer price of rents for offices in apartments, in Sofia, up to December 2007, is 8.92 EUR/m².

The increased supply of modern and well-equipped business areas during the last two years has regulated the rents in the sector. Supply has increased to match the needs of the new commercial districts, outside the city. There is a shortage of class A and B office premises throughout the city which is pushing up rent prices a little to about 5-6%

In the second economic centre in the state, the town of Varna, offices in apartments are offered at prices between 4-11 EUR/m², as the average offer price up to the month of December 2007 is 7.85 EUR/m². In Business Park Varna, the price of office space is 10 EUR/m². The average rents of other administrative areas rarely surpass 8-10 EUR/m². Demand for office premises should decrease over the next few years as 110 000 m² of new office space should come onto the market. Almost 80% of newly constructed office premises are situated off Vladislav Varnenchik Blvd in a specific business area. Direct access to the airport and a main road in and out of the town afford excellent transport links.

The market for office areas is comparatively underdeveloped, as investors and owners are more willing

to rent offices rather than sell them. With the increase of the new construction of office buildings in the capital the number of offices offered for sale is fast increasing.

Traditionally, the highest office prices are in the administrative buildings in the city and at the business centres of Lozenetz and Bulgaria Blvd. Prices for offices in the business buildings in Sofia centre are between 833-3 850 EUR/m², whilst in the premises at Lozenetz prices vary between 1 364-3 740 EUR/m². Offices in apartments in the centre are sold at prices between 500-3 000 EUR/m².

ROMANIA

Following the arrival of the large multinationals and other foreign companies, there has been an increased demand for better office locations. This high demand has led to the development of business park projects. These business parks offer large rental space and a wide range of services: security, building administration and parking for employees. Between the end of 2006 and the beginning of 2007, over 50 class A office buildings were announced and were under construction. Most of these office buildings were in and around Bucharest, but the expansion of this sector also took place in the major cities of Timisoara, Brasov and Sibiu.

In 2007 over 400 000 m² of office building space came onto the market; largely class A office buildings located in the north of Bucharest. Developers became

increasingly interested and class A office stock doubled. By the end of this year most of these projects will be in the north of Bucharest.

The growing interest of the developers for A class office buildings and the development trend of the real estate market almost doubled the A class office buildings stock. Northern Bucharest will concentrate 40% of the A class stock.

Rental prices are from 18–20 EUR/m²/month up to 24 EUR/m²/month when the building is at the final stage .

The class B office buildings represented were quickly absorbed by the market due to the lack of class A office premises. However, office buildings that didn't benefit from a prime location, but did offer large premises and were well-connected to public transport, were still considered to offer class A accommodation.

Rental prices for this type of office ranges between 14–16 EUR/m²/month, depending on the location and facilities.

The demand for class A and class B offices will continue to rise in 2008 due to the increasing interest of foreign companies ready to enter the Romanian market.

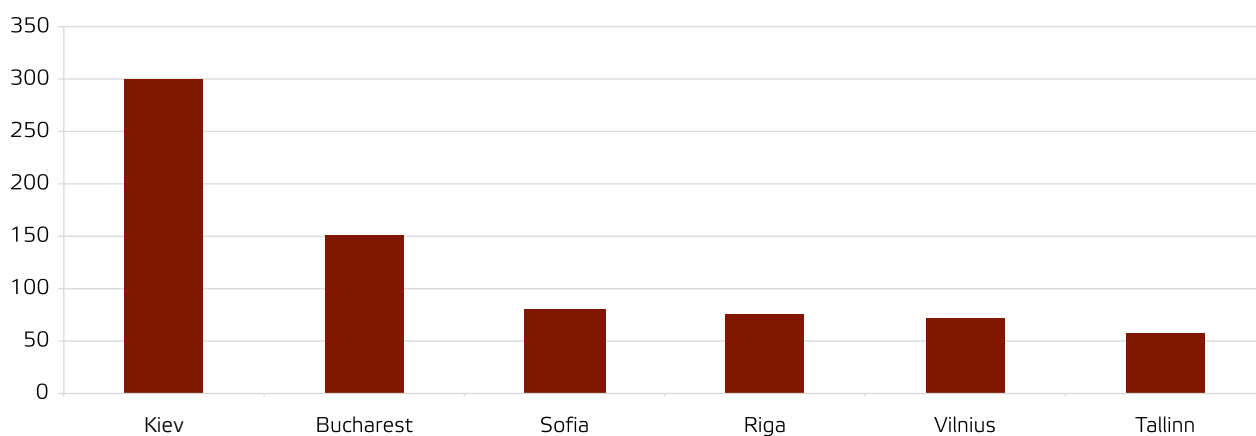
Retail premises

Average rental prices in different areas of capitals, EUR/m²/month

	Tallinn	Riga	Vilnius	Kiev	Sofia	Bucharest
City centre (high streets)	29–58	60–75	22–72.5	60–300	40–100	80–150
Trade centre (outside city centre)	22–45	30–35	11.6–72.5	20–60	15–60	16–100
Prime yield	6-8%	6–8%	6–8%	10–11.5%	7–8%	7–7.5%

Source: Arco Real Estate

Highest rental prices for retail premises in various capitals, EUR/m²/month



Source: Arco Real Estate

Estonia / Pärnu / Papiniidu äriinnak



The biggest retail centres

Tallinn

Ülemiste	50 000 m ²
Kristiine	32 000 m ²
Viru	30 000 m ²

Riga

Domina	110 000 m ²
Spice	~77 200 m ²
Alfa	63 134 m ²

Vilnius

Akropolis	110 000 m ²
Banginis	28 000 m ²
Europa	22 000 m ²
PC BIG	19 000 m ²

Kiev

Ukraina	38 000 m ²
Promenada Centre	40 000 m ²
Karavan	42 000 m ²

Sofia

Mall Sofia	70 000 m ²
Sofia City Center	40 000 m ²
Sky City	26 000 m ²

Bucharest

Plaza Romania	104 000 m ²
Bucharest Mall	60 000 m ²
Iulius Mall (Timisoara)	83 000 m ²
Moldova Mall (Iasi)	20 000 m ²

Source: Arco Real Estate

ESTONIA

Major trade and service centres were established in Tallinn and Harju County mainly before 2004, and no major or significant centres have entered the market since. But in this market sector, the demand by tenants for new trade premises also exceeds retail space, and the time is right for existing centres to expand and for new retail centres to be established. According to brokers there will be no difficulty filling

the additional retail space. Plans for extending several of the larger existing shopping centres: Rocca al Mare, Kristiine, Magistrali and Järve, have already been disclosed; as well as plans for establishing a new shopping centre, near Tallinn, said to be the largest yet. These plans have been in discussion for many months and actual construction has only started at the Rocca al Mare shopping centre. In 2007 the area of retail premises per single person in Tallinn, was approximately 1.5 m². Harju County (which includes the capital-Tallinn) has issued building permits for the establishment of approximately 105 000 m² of new trade and service premises, in the 11 months of 2007.

The demand of tenants for new retail premises is supported by the retail trade, the volume of which has been increasing in Estonia to date. According to the Statistics Board, the retail sale of retail goods by retail companies at constant prices in June 2007 increased by 16% compared to June 2006. Again, the shops selling non-food items witnessed the fastest growth (21%). In grocery stores, sales increased by 11% compared to last June; growth has been stable since the beginning of the year. Due to their great importance, grocery shops made up almost 45% of the growth in all retail sales.

This has created a situation in which the landlord has a chance to choose between different tenants, and for most shopping centres, there are many potential tenants interested in renting premises. However, the owner of the premises is not interested in giving up a good current tenant and so few lease contracts have been concluded. Landlords and tenants dictate market rental prices by agreeing on a rental price which usually reflects a 3–5% growth rate per annum. In lease contracts for new premises, the price level has generally remained the same, for example, in new trade premises located in Tallinn city centre, net rent was between 28–58 EUR/m²/month.

It can be stated that regional shopping centres dominate the market; and hypermarkets and supermarkets located close to customers are also successful

Lithuania / Kaunas / Business Centre 1000



Bulgaria / Sofia



(for example, the chains of Selver and Rimi). Small shops and service premises have been added to the first floors of new apartment buildings located in the city centre, but the proportion of these with respect to the market volume is still rather modest.

LATVIA

There are no significant changes in the retail premises market. Existing shopping centres are expanding according to plan. The city of Riga has seen the opening of Galerija Azur; Riga Plaza is under construction with an opening date anticipated in the first half of 2009; other shopping centres are still at the planning stage.

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Interesting changes have been noted in the regions where there is still land and new opportunities for shopping centres. With the growing purchase ability of people living in the regions and an increasing stability of the cash flow situation, the regions have become more fertile ground for the establishment of shopping centres. It is predicted that typical regional trade centres will emerge.

Supermarket chains are continuing to expand into the regions but they are also considering further possibilities in Riga, the capital city.

The demand for retail space, especially in the capital, remains high; interest is growing in various areas of the city. Particularly high rents in the centre and the most desirable shopping streets, has encouraged retailers to consider other areas of the city; these new areas could then be ready for development.

The total area of modern retail space is growing in Latvia.

Total space of modern retail premises in Riga, m²

Expensive streets	~ 20 000
Central streets	~ 51 000
Districts of city	~ 43 000
Shopping centres	More than 300 000

Source: Arco Real Estate Latvia

With the growing demand the rental prices are increasing, because the supply is still not enough:

Average rental prices EUR/m²/month in different districts of Riga city

Expensive streets	60–75
City centre	30–36
Trade centres	30–35
Old town	35–60
Average yield of retail premises	6–8%

Biggest shopping centres

Name	Space, m ²
Domina	110 000
Spice	~ 77 200
Alfa	63 134

Source: Arco Real Estate Latvia

With the development of separate districts of Riga new street retail premises have been created. This has positively influenced the level of rental prices in the retail premises market and in some way has helped to balance supply and demand. Quality and location are important factors in the relationship between the growing total space of retail premises and rental prices.

For all that the districts of the city are developing and the supply is rising, demand still remains high. Street retail is unlikely to grow in pace with demand so rental prices will stay high in the most desirable locations.

LITHUANIA

Vilnius

The commercial premises market was still growing throughout 2007. Many positive factors have contributed to the favorable situation: a better economy in Lithuania; better wages and job opportunities; the success of local companies; and new foreign companies coming into the market. A quite large demand for commercial premises has followed. Currently the area of commercial premises in Vilnius, covers about 500 000 m² with demand still exceeding supply. There is almost no free space in working trade centres and in the central shops of Vilnius; the develop-

ment of new projects should solve the shortage problem. During 2006 and 2007 PC BIG (19 000 m²), Vilniaus vartai (10 000 m²), Helios city (7000 m²), and Gedimino 9 (15 000 m²), have slightly eased the situation of the shortage of supply. It is anticipated that the market imbalance will be further corrected, in coming years, by several large projects including: Panorama (65 000 m²) and Ozas (93 000 m²).

Kaunas

In earlier years several new modern supermarkets have been built: Molas (21 000 m²), Hyper Maxima (19 000 m²), Mega and IKI. The biggest supermarket

in Kaunas, Akropolis, has opened in 2007. Its total plot is about 81 500 m². More than 200 operators are working there. In addition there is rented warehousing on the site.

In the first quarter of 2007 the prices of rent of commercial premises rose by 4%. Whereas in the more marketable areas like Naujamiestis, Senamiestis, Dainava, Eiguliai and Kalniečiai, the prices of commercial premises have risen by about 15%. In the second quarter of the year there has been a noticeable distinction between selling and renting prices of commercial premises. The rent prices haven't changed, whilst selling prices have grown by about 3%. In the more marketable areas like Dainava, Eiguliai and Kalniečiai prices has grown by almost 15%. In the third quarter

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Total space of modern retail premises, m² (existing retail space)

Area	Vilnius	Kaunas	Klaipeda
	500 000	250 000	200 000

Average rental prices of retail premises (2007), EUR/m²/month

Area	Vilnius	Kaunas	Klaipeda
Old town	17.4–72.5	14.5–43.5	11–28
City centre (high streets)	22–72.5	14.5–43.5	11–28.5
Trade centre	11.6–72.5	10–43.5	14–28.0

Average vacancy and prime yield of retail premises (2007)

Area	Vilnius		Kaunas		Klaipeda	
	Vacancy	Yield	Vacancy	Yield	Vacancy	Yield
	6–8%	6–8%	8–10%	5–8%	8–10%	5–7%

The biggest retail centres, m²

Area	Vilnius		Kaunas		Klaipeda	
	Name	Total spaces	Name	Total spaces	Name	Total spaces
	Akropolis	110 000	Akropolis	81 500	Akropolis	75 000
	Banginis	28 000	Mega	72 000	BIG	20 000
	Europa	22 000	Molas	22 600	Arena	18 000
	PC BIG	19 000	Hyper	19 000	Grandis	12 000
			Maxima	17 000	Mega Plaza	5 000
			Savas	13 500	Saturnas	5 700

of 2007 prices in the commercial premises market have stabilised.

Klaipeda

Trading premises have recorded the greatest growth rates in the Lithuanian commercial real estate market. Development in Klaipeda is livelier than in Kaunas, but less lively than in Vilnius city. Great steps towards enlargement are expected in 2009–2010. The second stage of Big Project; a leisure and shopping centre near the entrance to the city, developed by Edfermus projects, will be initiated. The developments of Sea port and Memal town will also make their appearance.

The forecast is that rent for the large supermarkets should remain stable; only extra charges (for example: utilities and administration costs) will grow. Prices for trading premises should grow in multifunctional building projects. There is currently 1 069.5 m² of retail space for every 1 000 inhabitants of Klaipeda.

Nowadays there is great interest in the entertainment premises (ice rinks, cinemas, bowling, children's playgrounds, restaurants and cafes); entertainment premises has become one of the main competitive factors between supermarkets.

There are few historical retail streets in Klaipeda; the present trend is for big supermarkets to dominate the marketplace. Currently the supermarkets Kapitolijus and Mega Plaza enjoy a position on Herkaus Manto street and there are plans to site other supermarkets on Tiltu and Turgaus streets. In the future it is not inconceivable that people will return to traditional high street shopping.

UKRAINE

The retail real estate market in Ukraine continues to grow. According to the A.T. Kearney rating, Ukraine takes the place among the five most attractive countries in which to develop the retail market .

The supply of the large-format trade premises in Kiev is presented by 27 trade centres which constitute around 400 000 m². The total space of the retail projects which will be put into operation in 2008 is around 238 000 m². Premises of between 40–150 m² in shopping centers are the most popular.

Following a continuing active expansion of chain retailers and the growing deficit of high-quality trade space, vacancy rate in successful shopping centres is less than 1%.

As a result of the shortage of retail space in Kiev, rents increased by 32% and constitute between 60–300 EUR/m²/month in the city centre and between 20–60 EUR/m²/month, in the suburbs, excluding VAT and operating expenses.

Central streets in Kiev still remain the main retail trade corridors of the city. The considerable gap between supply and demand for retail premises is particularly notable in the city centre.

The cap rate for professional shopping centres is ranging from 10–11.5%.

Influenced by a shortage of new premises, the characteristic tendencies of the market are the following: development of existing industrial objects into retail premises, a change in demand from detached buildings to professional trade centres, an increase in quantity of new projects in more distant districts and format enlargement.

As there are some difficulties in the realisation of retail projects in the capital a lot of developers go to the regions. The most attractive regional cities are: Odessa, Lvov, Donetsk, Kharkov, Dnepropetrovsk, Zaporozhiye and other regional towns with a population of 300–500 thousand people.

BULGARIA

Since the second half of 2006, commercial areas have experienced the most dramatic developments in retail real estate.

The increased purchase power of the population, the conclusion of analysts that the market is insatiable, high economic activity and good economic prospects for the country are amongst the main reasons for the swift and massive introduction of new commercial operators and investors in trade facilities, on the Bulgarian market.

The key location of the country, through which five trans-European transportation corridors pass, is another important factor which attracts investors into the sector.

With Bulgaria's accession to the EU its reliability is increased. Global strategic investors declared their intention to construct commercial areas in the city of Sofia, Varna, Plovdiv and Rousse, during the second half of 2006 and in 2007. The main interest is directed towards the construction of commercial and entrainment centres of the Mall type as well as multifunctional buildings or complexes of buildings comprising housing, office and commercial areas.

Among the greatest large-scale foreign investors on the market of the commercial areas is the Spanish investment entrepreneurship company Riofisa that will invest more than EUR 600 million in two multifunctional projects in the city of Sofia and one in Plovdiv. The German construction entrepreneurship company ECE Projectmanagement participates in two projects in Sofia and one in Varna with investments surpassing EUR 580 million. The Polish investment entrepreneurship company Globe Trade Centre, part of the Israeli financial group Cardan-CG, is developing three investment projects in Plovdiv, Varna and Rousse. The Lithuanian trading operator VP Group will invest about EUR 500 million in a large-scale multifunctional project in Sofia. The Israeli companies OCIF Investment & Development Ltd and Cinema City International N.V that built the first malls in the city of Sofia and the town of Plovdiv, are developing a new project for the mall of Rousse along with some other Israeli corporations.

The greatest volume of construction work is focused in Sofia where there are 455 030 m² of constructed commercial areas with a further 786 000 m² being underway.

In Plovdiv the commercial areas under construction amount to 289 000 m² whilst a further 304 000 m² are in the planning process.

In the town of Varna and the holiday centres around it, the commercial areas under construction amount to 265 000 m², and those in planning amount to 366 000 m².

Interest in commercial malls is very high. There are expectations that the modern facilities will attract the attention of global commercial chains and operators as well as the popular corporations that are widening their area of activity. All operating newly built commercial centres enjoy almost full occupancy and many of the sites under construction in the city of Sofia, Plovdiv and Varna find tenants during the construc-

tion process. Many of the malls under construction plan to have office premises within the building, this will ease the demand in the office real estate sector.

Currently more than 20 large commercial centres are at the planning and developmental stages.

In comparison to the end of 2006, the greatest increase in constructed commercial areas, is registered in the town of Varna, with 147%, followed by Plovdiv, 83% and the city of Sofia, 60%, according to the statistics of the bcc.

Commercial rent, in certain areas of the city of Sofia, is one of the most dynamic aspects of the retail real estate market. They vary and depend exclusively on the location and quality of the site. There is a noted tendency for the decrease in rental value for the commercial sites on Vitosha Blvd and Patriarch Evtimij Blvd, in the city centre, up to December 2007, which can be explained by the wide choice of cheaper commercial areas in the new trade centres and malls.

Up to now the demand of luxurious commercial areas in the centre of the city continues to be high. But this type of offers are very scarce and appear rarely on the market. Prices of the sites on offer vary between 40–100 EUR/m² for commercial sites with a good location and that are of a quality build.

The highest rents are traditionally those on the main commercial streets in Sofia, Vitosha Blvd, but most of the shops in offer are located outside the ideal center. Current rents reaching up to 100 EUR/m². In the city centre maximum rental prices are up to 100 EUR/m². Patriarch Evtimij Blvd can achieve rents of 80 EUR/m², whilst on Madrid Blvd rents are between 16–45 EUR/m².

In the completed shopping malls in the city of Sofia the rent prices are between 15–60 EUR/m². In the malls undergoing construction rents are between 25–55 EUR/m².

Analysts anticipate an average 8% return on investments in the commercial area in the city of Sofia. Investors are attracted not by the size of the expected profit but by the security of the large market.

The construction of office areas, trading centres and industrial real estate attracts many foreign investors; returns on investments in Bulgaria are at the rates of 7–9% per annum while in central Europe rates of

return are expected to be around 5–6%, whilst in London rates of 4–5% can be expected.

ROMANIA

The retail market has undergone spectacular growth in the past three years and is the only sector to have penetrated beyond Bucharest into the towns and cities of Romania.

The modern commercial spaces stock is around 250 000 m² and for 2010 it is estimated to reach a value of 1 million m².

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At present, Bucharest has limited modern commercial space on offer (around 150 000 m²), this will lead to an ever higher demand for such premium retail space. It is estimated that by the end of 2010 Bucharest will have 10 indoor shopping centres.

In the second half of 2007, 45 projects (malls) consisting of commercial centres, commercial galleries and parks have been announced. 14 retail projects, with a total investment value of EUR 2 000 million, are destined for Bucharest.

Retail transactions in the real estate market are of increasing interest to investment funds. The yield value is following a decreasing trend 7–7.5%.

New types of real estate developments will appear on the market, called retail outlets; these are large retail spaces offering products at reduced prices. Competition between retail parks, malls and commercial galleries could attract a rental increase for developers.

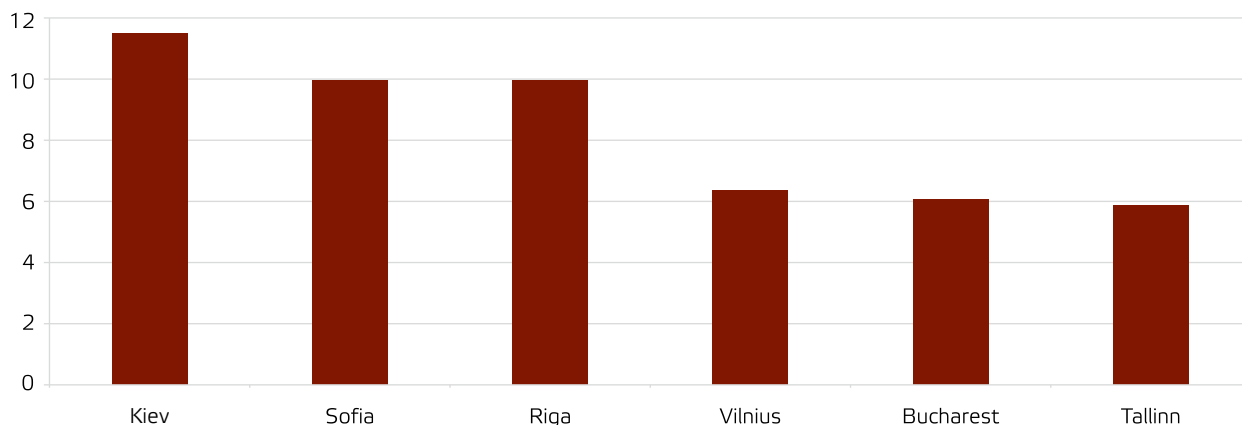
Industrial and warehouse premises

Average rental price, EUR/m²/month

	Tallinn	Riga	Vilnius	Kiev	Sofia	Bucharest
New premises	4.5–5.8	6–10	5.2–6.4	7.4–11.5	4–10	2.5–6
Old premises	1.0–4.5	Up to 2	2.3–4.6	3.7–7	2–5	4–4.5

Source: Arco Real Estate

Highest rental prices of warehouse and production premises in various capitals, EUR/m²/month



Source: Arco Real Estate

ESTONIA

The market situation for warehouse and production premises is characterised by the fact that most buildings to be constructed are intended for private use. The most active construction areas are situated along the main roads leading out of the city, from the city borders to the Tallinn roundabout (mainly Rae, Saku

and Saue rural municipalities). Development activities in the Maardu area, located in the immediate vicinity of Tallinn, and around the Muuga Port, have also become more active. Significant new buildings have been established along the Tallinn roundabout whilst further afield construction and the liquidity of existing premises are dropping dramatically.

Latvia / Riga / Dzelzavas street



Lithuania / Vilnius / Logistic centre



The new and modern warehouse and production buildings are mainly established in technology parks with improved facilities, plots ready for construction, and the technology supplies necessary for the building. The companies assembled into technology villages are often a synergic community in which various companies supplement each other with their fields of activity; there are cases in which tenants are selected according to what additional value the new company can offer the existing ones. The current success of technology parks is also characterised by the launching of new stages within the parks. The development of new stages has been initiated at Mõigu, Jüri, Maardu and Tännasilma technology parks. Amongst the technology parks currently being developed, the Nordshore Corporate Park, to be established near Muuga Port, may be regarded as the most impressive.

The volume of new building permits in the warehouse and production premises sector has been stable in recent time; and as mentioned before, new buildings are mainly intended for owner use – there are few premises established for speculative purposes.

In the case of existing rental premises, the most demanded size of premises, according to experts at Arco Real Estate, is between 300–700 m² and 1 000–1 500 m². The maximum size of rental premises is 7 000–10 000 m², but these dimensions can be regarded as being exceptional. It can also be stated that interested parties considering premises with a size of more than 5000 m² are seriously considering the option of building themselves or getting the premises “tailor made”. The latter means the construction of a rental space by the developer according to the wishes and needs of a specific tenant which is becoming more widespread. Regarding premises, modern technical conditions (communication lines, loading platforms, planning) are also important, in addition to size. Premises with a good access for goods, open planning and sufficient working height (approximately 10–12 m²) are preferred.

When compared to previous periods, the indus-

trial real estate sector has not witnessed significant changes in rental prices, although a certain price increase can be noted in the top prices. The differences in the prices of warehouse and production buildings of various specification and location are still rather large. As land and construction premises have constantly been getting more expensive, an increase in the price of warehouse and production premises can also be expected in the long run.

There have been few sales transactions of new and high quality warehouse and production buildings; the transactions that have been made are often of the sale and leaseback type, and the buyers have often been various real estate funds that wish to actively increase their portfolio.

In 2–3 years, the stable development of the warehouse and production premises market, and further development activities can be expected. A majority of the new developments are still expected to be owner occupied. New premises are mainly established in technology parks that feature complete infrastructure and synergy. In case of warehouse complexes, logistical concepts are becoming more important than before, with the owner providing other solutions related to logistics in addition to renting the premises. Although there is strong pressure on rental levels due to an increase in the prices of land and construction, the possible increase in rent is not expected to be more than 10%.

LATVIA

The industrial premises sector in Latvia has grown. Further new warehouse and production premises are planned or are under construction. Demand has risen and as in the previous year supply has fallen short of demand.

Primary demand for this kind of premises is near the capital city of Riga; demand in the regions is relatively low. In 2006 and 2007 the supply has been characterised by old premises not suitable for modern building

Romania / Storage place North-Eastern Bucharest



Romania / Storage place Northern Bucharest



criteria; this is a major problem. New buildings do not offer the required space. Most large warehouse buildings are under construction: the logistics centre in Salaspils, the Dommo business park in Olaine, the SMI logistics centre in Bergi and the Elipse Business and logistic centre near Riga airport.

The biggest supplier in the market is NP properties who have developed the most business parks throughout Latvia, but the problem remains: all of these business parks are full.

Average rental prices EUR/m²/month

New warehouse premises in Riga	6–10
New warehouse premises in surrounding areas of Riga	5.5–6.5
Renovated warehouse premises in Riga	4.5–5
Premises in Industrial Parks in surrounding areas of Riga	5–6.5
Old warehouse premises in surrounding areas of Riga	Up to 2

Source: Arco Real Estate Latvia

Growing demand affects the rental price level and it is still very high. This fact will remain until most of the large industrial parks are built and that will not be soon. This sector will develop further and is currently worthy of consideration.

Interest in warehouse and industrial premises in Riga city is not as great any longer. This can be explained by the transport restrictions in and out of the city. All interest in the city is focused around the areas of Maskavas St and Krustpils St.

The most demand is for industrial premises outside the borders of Riga: along a 35 km radius around Riga city. The infrastructure here is good and the location is very advantageous because of the proximity to good transport links throughout Latvia and outside its borders.

LITHUANIA

Vilnius

The market for new industrial buildings in Lithuania is still developing; and rental prices are progressively rising for both old and new warehouses. Despite

the existence of developed projects (Autoverslas, Dobrovolė, Arvydo paslaugos), demand is still higher than supply.

A surplus of warehouses over the coming years, in Vilnius, is not expected. At the moment occupancy is close to 100 %. Most of the rentable warehouses are about 1 000 m² in area and there is a need of smaller industrial premises in the market of around 100–400 m².

Warehouse prices over 2007 rose about 15% in old buildings, while only about 10% in new buildings. During 2008 prices of new warehouses should stay stable, and in the old warehouses there may be a small price rise. Prices depend on location and size of the warehouse and vary from 2.3–4.6 EUR/m² in old buildings and from 5.2–6.4 EUR/m² in new buildings.

Kaunas

Kaunas city is marketable by virtue of its geographical location, it is very good location for warehousing or logistical premises. This year as in the previous year, the demand for logistic centres was not realised. These centres are already being built in LEZ (free economic land) and near the highway Via Baltica.

In the first quarter of 2007, in Kaunas city, the price of storage premises has grown by almost 30%; in the second quarter of the year it grew only about 2%.

Klaipeda

In 2007 the market of storage premises increased more than 30 000 m². During the years 2008–2009, financially strong trade companies are predicted to move their goods to storage in new premises, thus increasing the supply of the older type of store.

Due to a lack of industrial land area in the city, increasing prices of the land and intensive traffic in the city, more and more manufacturing and storage objects will be built in the suburbs of the city, near the main roads, more than 15 km from the city centre.

Average rental prices of industrial premises (2007) EUR/m²/month

Area	Vilnius	Kaunas	Klaipeda
Old space	2.30–4.60	2.00–4.30	1.50–3.20
New buildings	5.20–6.40	4.30–5.80	3.00–5.20

Source: Arco Real Estate Lithuania

UKRAINE

36 At the beginning of 2007 industrial real estate remained the least developed sector of the Ukrainian real estate market.

A peculiarity of the industrial market in Kiev is end-user development rather than investor development. Notable projects for logistics and manufacturing are Kuhne & Nagel, FM Logistic, Ost-West Express, Ukrainian Cargo Express and Komora-S.

Cap rates for warehouse properties are approximately 15%.

At the beginning of 2007 the supply of purpose-built warehouse space was 184 000 m².

As a whole, the supply of the industrial market of Kiev can be divided into several categories, depending on the quality of the properties offered. The first and largest category comprises about 85% of the total supply utilising buildings constructed in the 1960s and 1970s. These buildings generally do not fit modern industrial warehousing facility requirements.

This category of the market also includes semi-professional warehouses, namely reconstructed hangars and small factories built during Soviet times. This category can be classified as warehouse premises of class C type.

The second market category is represented by class A and B professional grade warehouse properties which make up a 15% share of the market.

The capacity of the warehouse market at the beginning of 2007 can be estimated at 900 000–950 000 m². The present demand for professional warehousing facilities exceeds the supply.

At the beginning of 2007 rental rates averaged EUR 7–10/m² /month, excluding VAT.

The rental rates depend on the location of the warehouse, infrastructure, technical characteristics and range of services provided.

BULGARIA

The sector of warehouse-logistics and industrial areas in the state up to the present day is not so well developed. The supply is scarce and it usually consists of areas that are rarely consistent with the raised requirements of clients. The increased demand and limited supply of contemporary store – logistics and industrial areas, as well as the exclusively favourable and strategic location of the state, are prerequisite for attracting investors' interest in the coming years. The return in this sector is comparatively high – about 9–10%. Leading construction entrepreneurs and investors, specialising in the construction of logistics parks, have examined market opportunities and have already started the execution of some large-scale projects.

The high economic activity and the stable development of the manufacturing and servicing area increases the demand of industrial and logistics platforms; the good business climate, the low corporate tax on profits and levels of labour remuneration attract more and more foreign corporations and commercial operators to the state. The companies that have already entered the country, from the manufacturing area and the transportation, commerce and distribution areas, widen their activity and this in turn, increases the demand for modern industrial and warehouse-logistics areas. The other factors stimulating the sector development are the new European requirements for food and drugs storage.

Currently in the capital, there are about 1 200 000 m² of industrial areas; in Plovdiv there are 450 000 m²; and in Varna 300 000 m², considered by analyzers in the sector. In most cases these are custom built warehouse-logistics areas; they are built in order to serve the specific needs of a company that is also the owner. The part of the warehouse and industrial areas built for rental premises is still insufficient, that leads to a great shortage and demand for industrial areas. (Up to the end of June, 2007, the industrial areas for rent in the region of Sofia were about 160 000 m² or 13% of the total present areas, considered by analysts in the sector.

The main interest of investors is directed towards the capital Sofia. There are several sizeable warehouse–logistics projects already underway that are destined to change the ratio between premises custom built by the owners and premises for rent. Nearly 850 000 m² of new warehouses, logistics and manufacturing units are due to be built in the city of Sofia by 2010.

In addition to Sofia analysts note high potential for development of similar projects in the town of Plovdiv and Gorna Oryahovitza as well as for the large harbour towns of Varna, Bourgas, Vidin, Rousse, and Lom. The strategic location of these towns, the proximity to the trans–European transportation corridors and significant transportation advantages are some of the most important factors for investors.

One of the first projects to be realised in the city of Sofia, was in the region of the airport and the ring road – the headquarters of “Vrajdebna” and “Slatina” where there is a logistics area, under development, of 300 000–400 000 m².

The rents for industrial areas are highest in the city of Sofia and in the outskirts of the city they are between 2–10 EUR/m². For quality premises they vary between 3.8–5.5 EUR/m². The most expensive industrial areas are in the region of the by–pass, these are between 4–10 EUR/m². Rent at the airport is between 4–7 EUR/m² and the cheapest rents are in the centre of Vrajdebna between 2–5 EUR/m². In the region of Sofia rents for industrial areas are between 2–6 EUR/m².

In Varna rents are between 3–10 EUR/m²; Bourgas between 3–5 EUR/m²; and in Plovdiv, rents are between 2–5 EUR/m².

The prices of lots suitable for construction of industrial areas differ widely. Traditionally they depend on the location of the lot; the proximity to large transportation facilities and transportation accessibility; infrastructure; and the town–planning parameters. Lot dimensions influence price as well. For the development of logistics bases and industrial sites large lots are usually in demand. In the industrial areas of Plovdiv, Varna and Bourgas there is a wide choice of plots suitable for construction. The real estate land sector has land on offer which varies in quality, price and potential. It could be possible to purchase large sections of agricultural land preparatory to changing their designated use.

In Sofia, investors aimed at regions like Bojurishte, Kostin brod and Novi Iskar where there are large enough lots on offer at comparatively good prices. With the construction of several logistics sites in one industrial zone the lots around them will increase in value too.

In close proximity to the city lots are most expensive and supply is more limited. There is a comparatively larger supply of various lots suitable for industrial construction, to the north of the ring road, where the price of real estate varies between 20–315 EUR/m². Even more expensive are lots in the region of the airport where land is offered at a price of 40–750 EUR/m². There are some very high upper price limits but these are exceptional. They are perhaps indicative of greater interest and specific regional demand.

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ROMANIA

The industrial market in Romania has gone through a period of accelerated growth. The market is dominated by rental transactions. Many new projects have been announced, throughout the country, to the value of EUR 350 million. The new investments were focused on the large logistics development, on the outskirts of Bucharest.

Developers of industrial space have been attracted by land in the north and west of Bucharest because of land availability and easy access to the national road network. The demand for industrial and logistics space has developed because of increased production and storage activity and of the relocation of some companies from central Bucharest. Land availability is low, consequently brownfield sites are in high demand. The price evolution is influenced by the land price and by the price of construction materials.

In the first quarter of 2007, logistics and industrial projects totalling around EUR 980 million have been announced. The biggest percentage of these investments are outside the cities.

Logistics and industrial projects

Location	Details
Cefin logistic park	15 000 m ² for storage
Cefin logistic park	3 820 m ²
Cefin logistic park	5 000 m ²
Prologis park	10 700 m ²
Prologis park	8 000 m ²
Bucharest west	6 000 m ²

Source: Arco Real Estate Romania

38 Investments will continue to be made inside and outside Bucharest; the main focus being on large industrial spaces.

Land market

ESTONIA

Many investors and developers have already strengthened their positions with respect to business land, located in Tallinn, several years ago. Potentially vacant land that could be sold is also becoming more difficult to find. An increase in land for sale is only possible if owners are forced to sell their land for some reason. The problem is particularly apparant in the city centre area of Tallinn where there is currently a serious land deficit. The port area and Juhkentali quarter do possess noteworthy vacant plots of land with development potential. Land resources suitable for development can also be found around the crossing of Peterburi tee and Tartu maantee (former industrial areas) in Tallinn. There are also a few larger plots of land with buildings only suitable for demolition: an example being the former industrial area at the beginning of Mustamäe tee.

In the case of business land, the planning aspect is becoming ever more important as the value of the land is in direct relation with its construction potential. The prices of commercial land have reached highest levels mainly in the city centre, which is natural as the proportional building rights are generally larger there than in other areas. With land getting more expensive, the consideration of building rights has become important when making purchase and sale decisions. Basing an investment decision on the square metre price of land alone, might not be adequate.

The lack of industrial land transactions in Tallinn is not surprising as industrial activities have decreased in Tallinn city centre and have moved to other areas (Peterburi tee and Sõjamäe). In the case of typical

production land, the majority of operations have moved to local government sites in the areas surrounding Tallinn.

Technology parks are the focus of production land sales. Tartu maantee – a main road leading out of Tallinn has attracted technology parks that are both completed and in the planning stages. This land can command high prices: the norm being 32–95 EUR/m² but prices of 128 EUR/m² have been achieved. Transactions conducted on unimproved production land predominantly take place outside the city borders of Tallinn.

The development of the land market, in the short term, is directly related to the potential of development activities. This is mainly valid in the context of typical commercial land (land for office and trade premises). In the case of land with a potential for production and warehousing, a great proportion of the land resource has been used for the premises to be established for private use. A great proportion of land intended for production is used by technology parks, and this trend is expected to continue in the near future. In the case of technology parks, the choice of location is important both in the context of access and communications. With respect to prices of land, a stable period can be expected in the short term. This is mainly due to the fact that land prices in recent years have undergone a remarkable increase and, together with the increase in construction prices, a level has been reached in the context of development costs at which the productivity of the end product (e.g., production of warehouse space) has reached a critical limit.

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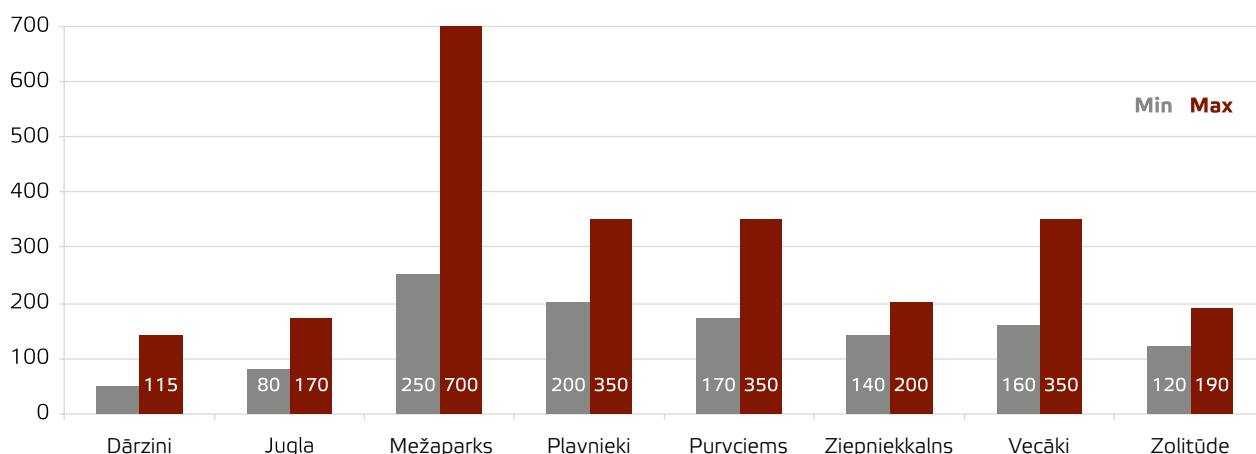
Latvia / Riga



Bulgaria / Sofia



Residential land prices in the housing estates of Riga, 1 January, EUR/m²



Source: Arco Real Estate

LATVIA

The rapid increase of price levels was observed in the beginning of 2007 (until April), but after this period land prices have stabilised.

The main reasons for land price increases in the beginning of the year, were land shortages, high inflation rates and the question of availability of co-funding from credit institutions. Credit policy changes due to the Latvian Government's "Limitation of Inflation"

plan are also significant.

The banks' credit policy change has deeply affected the land market; banks now evaluate potential transactions very carefully indeed. They are unwilling to give credit for insufficient or poor planning and are concerned about existing infrastructure. Banks evaluate the buyer's ability to buy and construct. Loans cannot exceed 60% of the land value.

A further contributing factor towards the stabilisation

Residential land prices in the district of Riga, 1 January, EUR/m²

	To 1800 m ²			from 1800 to 3000 m ²		
	Min value	Typical price	Max value	Min value	Typical price	Max value
Jaunmārupe	45	55	65	30	45	60
Babīte, Kleisti	45	60	85	30	40	55
Stopiņi	25	40	55	20	35	50
Olaine, Jaunolaines virziens	28	45	60	22	40	50
Rāmava, Katlakalns	55	70	90	45	55	70
Ulbroka	40	55	80	35	50	75
Ādaži	40	65	90	30	55	85
Garkalnes pagasts	35	70	100	25	65	95
Lielais un Mazais Baltezers	85	140	175	75	130	155
Mārupe	40	80	90	30	60	80
Ķekava	25	50	60	20	45	55
Piņķi	50	70	95	40	65	90
Salaspils	30	40	60	25	35	50
Baloži, Tīturga	30	55	90	25	50	85

Source: Arco Real Estate Latvia

of land prices is the reassessment of cadastral values which will increase significantly from 1 January 2008. Forecasted average price increases are as follows: agricultural land 200%, residential land 560% and commercial land 550%. The Government has made a decision that taxation of real estate should not increase more than 25% per annum; the significance of taxation of real estate will gain in importance, year on year.

Land price stabilisation has also been affected by the increase of construction costs; 2006 saw a rapid price rise of 24%, this was followed by a 16% rise during the first three quarters of 2007. But by the end of 2007 the decrease in construction drove down construction costs.

Real estate in land has seen a definite decline in activity; information from the Land Registry shows a decrease of transactions by 10% a month. Difficulties of sale have encouraged sales to drop 10–20% below the average market price during the second half of 2007.

Whilst it is true that generally the land market has been slow in 2007, some cities in Latvia are still experiencing a demand for residential land: in Jurmala and Riga residential land from 1200–2000 m² is still sought after. There is a continuing demand in Riga for apartment blocks.

LITHUANIA

Vilnius

When talks about overestimated real estate prices started, investors started to choose their investments more carefully. Land plots by Lyda road become very attractive for investors during 2007. Speculators were also very interested in this area. Therefore the prices increased from 1 700 EUR/a–3 487 EUR/a.

According to the figures, buying land could be a very good investment that could double you invested sum in the short term.

Kaunas

In 2007, in Kaunas, the prices of land for the building of individual housing, increased. Average prices in the first and second quarters increased by 5–7 %. Prices increased mostly in land without communication (utilities and roads), but by the end of the year prices for this kind of land stopped increasing.

As in 2006, the best market for commercial land was located near major road routes. The prices of these areas grew about 15% in the first quarter and 6% in the second quarter. In particularly prestigious districts it rose about 13%.

Klaipeda

The market of land in Klaipėda is very active. For clients it is very important that the land has communications and good connections with public transport. It is difficult to buy empty land area near the city centre, as this territory is densely built up. The old areas of the city are not that popular, because of the factories working near those areas. Land purchase is particularly popular in the Labrenčiškės and Tauralaukis districts.

The residential market in Klaipėda is influenced by “the coastal effect”: in the third term of this year, the largest price increase (up to 25%) was for the residential land near the sea (Melnragė, Giruliai, Karklė). In these areas the medium price of a land lot with communications is up to 90 000 LT/m² per one are. An attractive location, a low supply and growing demand will keep prices high for land lots near the sea.

There were no great differences in the commercial land market area, in Klaipėda, in 2007.

Land prices EUR/a

Area	Vilnius	Kaunas	Klaipeda
Central part of town (for developing)	57 000–150 000	15 000–30 000	56 000–145 000
Outside city centre (for residential development, private plots)	8 600–26 000	2 000–10 000	2 000–26 000

Source: Arco Real Estate Lithuania

UKRAINE

The Land market in Kiev and the Kiev region is continuing to be a very attractive sector of the real estate market in spite of constant price increases, complexities of documentation, the workings of the legal process and the appearance of new moratoriums and tax innovations.

The suspension of agricultural land sales and imposing a ban on transferring it to another category of land use, became the biggest barrier for that market sector.

42 Land prices rose by 20–65% last year; price increases for 11 months during 2007 made up 35–70% in comparison to the price level at the beginning of the year.

The number of land units that are ready for building have decreased, whilst the number of clients interested in buying land has increased. Additional interest has come from investors who have turned from the residential sector to the acquisition of land: price rises in the residential market have slackened their pace.

The banks' policies have changed simultaneously with market developments. Currently banks are readily giving hypothec loans for land purchase if the purpose is for building or horticulture. Banks have proposed new house-building loan programmes. Interest rates in Ukraine are still high—they have risen by 1.5–2% this year; but the number of land transactions using capital from the banks has risen constantly. (Land transactions in 2005 were at levels of 20–30%, today the figure is between 60–70%.)

Current price increases mitigate taking out a bank loan; land purchase is very profitable for buyers. But it is important to mention that as in the case of residential purchase, a great deal depends on location. Several factors affect the price of land: proximity to Kiev and good road links are important. Obuhov (most expensive), Koncha Zaspas, Zytomir and Odessa are key directional routes out of the city in terms of desirability.

BULGARIA

The interest of foreign and Bulgarian corporations is directed towards purchasing large areas of land for manufacturing, business or housing construction. Currently, the highest demand is for land suitable for the construction of residential complexes of closed type. In most cases foreigners are interested in such projects.

The exhaustion of the comparatively large sections of land for construction, in the framework of the compact city, redirects the investors to the surroundings of the city of Sofia where there are new projects under development. The compound housing complexes are planned or are under construction in the regions of Bistritza, Bankya and Vladaya; the village of Petarch; the village of Lozen; Dolna banya; Gorna banya; Pancharevo; and Bojurishte. In many cases the new housing complexes appear in close proximity to the growing recreation centres, golf clubs or the manufacturing–logistics areas.

As a result of the increased investment activity the villa areas of the past and the villages closest to the city, are gradually turning into areas of permanent, high category residence.

In the city centre empty land is scarce and is offered at quite high prices. In the areas where supply is very limited the minimum and maximum limit of prices are close—for example, in the areas of Serdika and Dianabad. At a closer location to the centre prices are comparatively high as can be observed in the areas of Vitoshka, Hladilnika and Ovcha Kupel. In the other group of villages that are at a comparatively greater distance from the compact city, supply is greater in Bankya, Gorna banya and Knyajevo. The price of land generally depends on the location, infrastructure, the town–planning parameters or the opportunities that land plots give for construction.

A typical new development is the offering of attractive, valuable parcels in regulation with the respective building permissions and projects designs of the buildings or facilities, which could be constructed on them. Part of the administrative procedures could be shortened, by this approach, but the prices of such parcels are relatively high and depend straight from the construction opportunities.

Analysts report a 64% increase in the prices of the land under regulation in the southern districts of Sofia, where the most intensive construction took place.

Offer prices of land for housing estates in Sofia, EUR/m²

	min	Max
Serdika	1 545	2 000
Dianabad	600	2 308
Losnets	125	3 243
Vitosha	100	1 944
Hladilnika	100	1 500
Geo Milev	250	1 300
Ovcha Kupel	60	833
Boyana	45	1 400
Knyazhevo	22	939
Dragalevtsy	35	1 020
Gorna Banya	25	850
Pancherevo	30	530
Bankya	20	513

Source: imot.bg/imoti.net

In the cities like Sofia, Plovdiv, Varna and Bourgas as well as in the coastal and winter resorts the attractive real estate is second-hand or third-hand. Part of the purchased land is undergoing development but the percentage land re-entering the market at speculative high prices, is not small. In their case the value of a square metre of land is an indicator of the future income that could be received after construction or sale or that could be asked for as rent.

ROMANIA

The most dynamic sector of the Romanian real estate market is in the sale of land. All land sales are returning a consistent price increase. A lack of land for sale within the city has made the price rises on the outskirts of Bucharest more noticeable. Land supply in the much sought after central areas of the city has quickly become exhausted, resulting in the developers targeting middle income buyers, moving to other locations within the city, driving land prices up. There is a strong demand for land for commercial use in the major cities of: Bucharest, Brasov, Bacau, Cluj and Timisoara; whilst agricultural land is sought after in the western region of Banat.

In the first quarter of 2007, 50% of all interest was shown in land for residential use. Prices registered growth of up to 80% or even 90% in some areas; particularly in the outskirts of Bucharest close to the proposed Bucharest-Ploiesti motorway.

Land transactions are predicted to grow in the residential and logistics markets. Price predictions indicate a 14-40% increase in some areas.

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